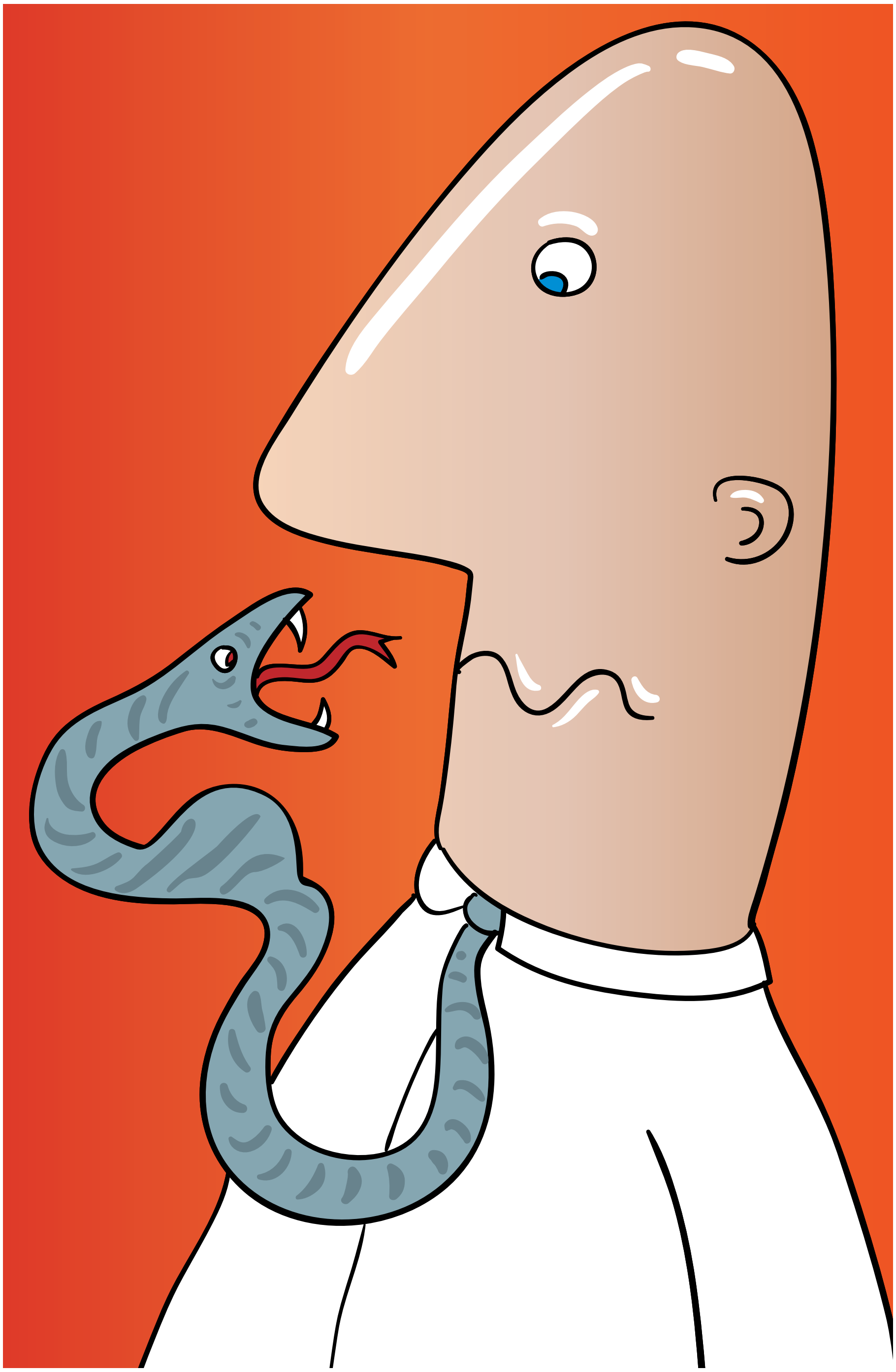
The Pig in the Python Economy



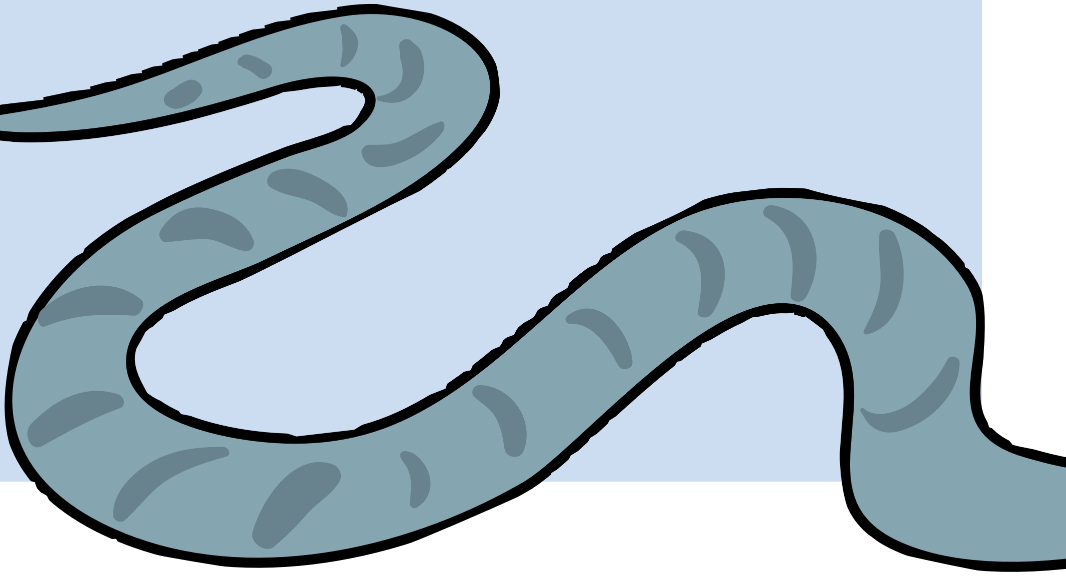
Utah's booming economy makes it stand out and gives it many unique qualities that analysts can evaluate and hypothesize upon. But the United States economy, even though quite tepid with only a 1.4-percent employment growth rate, also is presenting an interesting phenomenon. That is, how can an economy that is growing so slowly produce an unemployment rate—4.5 percent—that we used to regard as a fully-employed labor force and a booming economy? The United States economy isn't booming. It seems that something is quite different from what used to be.

So what is it? There may not be consensus on the underlying cause, but I believe it falls into the lap of that age group that changed America throughout its lifetime—the Baby Boomers! (Here you might insert those pulsating shrieking sound effects you remember from those B-movie horror advertisements.) Yes, the Baby Boomers. When something is out of whack or just isn't behaving the way it used to, just blame the Baby Boomers.

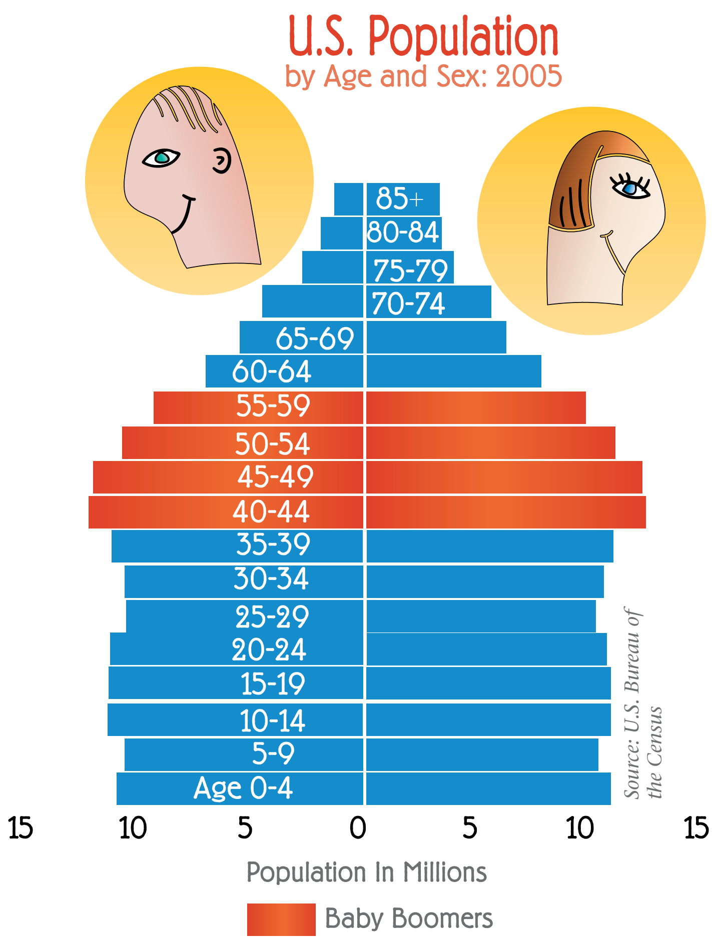
Okay, I'm being facetious, but let me state my case. The Baby Boomers are a large cohort that began entering the labor force in the mid-1960s, and continued to find its way throughout the early 80s.

Because of this, the United States economy has grown and "stretched" itself to accommodate this large group of laborers, who eventually became a large group of consumers and spenders. I liken this to the analogy of a pig in the python. Remember those Mutual of Omaha Wild Kingdom shows where

There isn't as large a pool of workers coming in behind the Baby Boomers looking for work.



the python would eat the wild boar and get stretched out? (I'm dating myself as a Baby Boomer, aren't I? The younger generation is asking, Mutual of what?). Well, that's what I see as best describing what the Baby Boomers did to the U.S. economy. Take a look at the population age tree below to visualize what I'm talking about. Granted this is a profile of the total population and not just the labor force, but the population supplies the labor force, and so it's safe to assume that the labor force profile is similar (just shrink in the sides of the tree a little bit). Look how the red bars (Baby Boomers) have "stretched" the economy as they moved through the labor market. The red bars have established the size of the U.S. economy. None of the succeeding age bars stretches as wide as the red bars.



So where are all the workers to keep this economy "stretched" when the red bars decide to call it a career? I believe that this phenomenon is a huge part of the answer to our original question—how can we have such a low U.S. unemployment rate with just a so-so economy? It's because the economy has been "stretched," and the dearth of workers coming in behind are readily being absorbed into the economy, even when the economy grows slowly. Going forward, with fewer workers to be idled, we may need to re-evaluate our expectations when defining low unemployment.